

Newsletter of the Institute for Public Policy

KYRGYZSTAN BRIEF



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ABOUT IPP

The Institute for Public Policy (IPP) is an independent, non-partisan research and policy-making institution, based in Bishkek. Its goals are to develop and promote participatory approach in establishing public policy; to strengthen expert analysis in order to promote effective decisionmaking in matters of public policy and to create an independent platform for dialogue on public policy issues. The Institute provides expert consulting, research and surveys on Central Asian affairs, conflict management services as well as implementation of educational and cultural projects aimed at good governance.

Institute for Public Policy
 42/1 Isanov kochoyu
 Bishkek 720017
 Kyrgyzstan

Tel/Fax: +996(312) 906240
 Email: office@ipp.kg
 Website: <http://www.ipp.kg>

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CENTRAL ASIA IN 2007: DYNAMICS OF CHANGE AND DEVELOPMENT

Regional conference summary

On 2 March 2007 the Institute for Public Policy hosted a regional conference "Central Asia in 2007: Dynamics of Change and Development." The event gathered over 30 leading experts - political and economic analysts from Central Asian states as well as the Ukraine and Armenia.

The conference was organized in two sections. The section "Political dynamics: changes and implications" was devoted to a discussion of the political development model of Central Asian states and issues related to the substance and dynamics of democratization and modernization. The section "Geopolitics and geo-economics of Central Asia" featured discussion of the issues of regional integration, the roles of political, economic and military international organizations, perspectives of energy cooperation etc.

In his welcome speech, the State Secretary of the Kyrgyz Republic Adakhan Madumarov noted that Kyrgyzstan, being the geographic center of Central Asia, has also been turning into its political center. Despite various political issues, Kyrgyzstan is consistently progressing in democratization. The current unstable political situation is a natural stage of development of Kyrgyzstani society, according to Mr. Madumarov.

"At the moment our society is in the process of self-learning, self-identification. Everything that has been taking place in this country suggests that we are very active," Madumarov said.

Discussing the development of the democratic process in Central Asian states, the conference participants argued that while various real and imaginary reforms have been taking place, two things remain constant: the countries still have a super-presidential form of governance and substantial dialogue on democratization remains lacking between Central Asian countries and the developed democracies of the West. The latter, it was noted, is not least related to the superficial attitude of western countries to the region. Thus, out of the EU countries, only Germany has an embassy in Bishkek; the rest deal with Kyrgyzstan from Astana or cities even further afield, which is not conducive to sustainable dialogue.

Aleksandr Iskandaryan, director of the Caucasus Media Institute suggested that when assessing the political dynamics of post-Soviet states, three groups could be identified, based on the countries' experience with a rotation of the political elite. There are countries whose societies accept the rotation of the ruling elite, such as the Baltic States. The second group, which includes most of the Central Asian states, consists of countries that have not yet experienced rotation at all, or where power is inherited. These countries simply lack the

mechanisms for accepting the results of power rotation. Between these two groups there is a grey zone - countries where rotation of the elite has taken place, but in a legally ambiguous way. In this group, which includes Kyrgyzstan, the unsuccessful party does not accept the results of such a rotation, and the political system is like boiling cauldron. The big question is whether these countries will move and develop towards a better system or remain for a longer time in their current state.

Valentin Bogatyrev, coordinator of Perspektiva Analytical Consortium, analyzed one such "boiling cauldron" - Kyrgyzstan. According to him, depending on the perception of the paradigm of the dynamics of political development, Kyrgyzstan could be seen as a democratic success or a failing state, to take two extremes. What is clear is that stability, at least how it is understood in other Central Asian states, has no chance in Kyrgyzstan.

"Stability is a sign of stagnation or a latent accumulation of possible social explosions. Kyrgyzstan is the most stable state in Central Asia since the processes of development are taking place here, and the 'lid is off the cauldron'; everything boils and rages, but it will not explode," Bogatyrev said. In conclusion, he noted that at any rate, Kyrgyzstan will be a mirror for neighboring countries to look into their own future, and avoid any mistakes made in Kyrgyzstan.

Continuing with the theme of stability, the director of the Central Asian Foundation for Democracy Erkin Tukumov suggested that stability, attributed to the political situation in Kazakhstan, is deceptive. Everyone expects reforms, but they [reforms] are initiated and implemented by the authorities, with little chance for the public to influence the form and substance of reforms. The presidential elections of 2005 symbolized the beginning of the end of the current political period in Kazakhstan, and the main goal of all political reforms is to ensure a smooth transition period, he said.

Farkhod Tolipov, Professor of Political Science of the National University of Uzbekistan made a report on geopolitical aspects of regional integration in Central Asia, triggering a lively debate. According to Mr. Tolipov, the role of geopolitical factors on regional integration has been steadily increasing, with this influence having a negative impact on integration. The speaker pointed to three main factors that affect the chances for Central Asian integration. First was joining of Russia into the Central Asian Cooperation Organization in 2004, which strongly deformed the notion of Central Asia both in geographic and political terms. The second factor was the summit of the SCO in Astana in 2005, when a declaration was adopted demanding that the United

States determine the date of withdrawal of military bases from the territory of Central Asian states. As Mr. Tolipov put it, it was not the will of Central Asian states; rather they followed the interests of larger powers. The third blow to regional integration was the liquidation of the Central Asian Cooperation Organization, which joined the EEC (Eurasian Economic Community).

"Now the region exists in wider structures, as some dissolved entity. We have the EEC, SCO and Americans lobbying the idea of a "Bigger Central Asia", including Afghanistan into Central Asia. So, Central Asia has ended up between three powers. It is not a subject but an object of politics, and thus, is turning into the victim of a geopolitical game," Tolipov said.

President of the Institute for Public Policy, Ambassador Muratbek Imanaliev noted that regional integration is hampered by several factors, one of which is a very low awareness of Central Asian states about each other, despite common history, culture, language etc.

"It seemed to us that it would be difficult to build relations with China, since we have no knowledge of it. But in fact, it turned out that it is much more difficult to learn about our neighbors. The majority of people in Kyrgyzstan know more about China than Kazakhstan," Ambassador Imanaliev said.

He also touched on the problem of unpredictable foreign policy among Central Asian states, conditioned by "suddenly acquired independence syndrome" as well as the degradation of social relations and values, and a crisis of religions.

The conference speakers also covered the issues of the institutionalization of political power and political opposition, perspectives on the Shanghai Cooperation Organization, relations of Central Asia with western countries and Russia, perspectives of economic cooperation and others.

EVALUATION OF POLITICAL SITUATION AFTER APRIL 19, 2007

Round table summary

The Institute for Public Policy held meeting of experts of the institute to discuss current political situation on April 20, 2007. The discussion was initiated in light of April 19 events, when authorities dispersed opposition rally that started on April 11, 2007 at the central square in Bishkek.

Round table participants stressed first of all that the April 19 event brought victory to neither side. According to the experts, such a confrontation weakened not only the opposition but also the authorities. "Events in Kyrgyzstan are in a new, unpredictable phase of development that can have serious consequences," participants said.

Firstly, the April rally seriously discredited the opposition (opposition meaning one element of democracy, as a phenomenon, but not a particular group of people.) Experts said that most opposition leaders, who were for system changes, became hostages of the tactics chosen by the United Front leaders. "The rally was aimed at the quick achievement of announced goals, but there were no real preconditions for them and that is why the tactic was initially futile," experts said. Statements of the "For reforms!" movement leaders saying that they suspend the rally and at the same time the silence of the United Front leaders, shows that there is a division in the processes between "reformists" and "front" members, experts said. According to them, all opposition forces will need time and they have to search for new formats for their activity to restore their positions.

Secondly, actions of the authorities prior to, during and after the rally demonstrated that they do not realize and undertake the necessary reforms. "The behavior

of the authorities is penetrated by a desire to win, save itself or fight back, but not by understanding the need for real reforms for the country's development and securing consent from among the population," they said. According to participants, if the authorities continue conducting reforms only under pressure and threat, political tensions will only increase.

Round table participants said that activities of the authorities immediately after April 19 demonstrate their desire to "kill" opposition in moral and informational terms. One can observe that the role of law enforcement structures in politics is strengthening, and it is expected that along with information and legal accusations, authorities might start a "shadow" attack against the opposition activists. According to participants, such methods will not solve the problems of authority, but rather on the contrary, augment antagonism in society and lay the foundation for new tensions.

Thirdly, and most importantly, the April confrontation led to the regional division problem strengthening. It is evident, that both authority and opposition used regionalism as the main resource to mobilize support among the population, thus infecting politicians of various levels, and also ordinary people with a "spirit of revanchism". Experts said that all political groups need to realize that in certain conditions regional division can occur in hours, and not only along a "north-south" divide. Both "south" and "north" can in their turns be divided into several other fragments.

Round table participants believe that every increase in



regional tension creates and encourages the prerequisites for dictatorship, or the fragmentation of the country and society. "The role of local "batyrs" (heroes) strengthens with the background of a common disappointment in authority and opposition leaders, and already this year can be seen as a real threat to the country's unity," experts said.

Solutions to the problem of regional division first of all depend on the authority's policy; the main player in the political field, experts said. According to experts, one of the solutions to the problem could be change of form of authority organization, giving it "corporate" structure. "Today it is almost impossible to conduct presidential elections in Kyrgyzstan because the country would divide into two parts," experts said and "that is

why it is necessary to find optimal ways out of the crisis."

They said that the press plays an important role in the "promotion" of the regionalism, without even realizing it. "The very media creates symbols of regionalism and promotes odious figures. It is necessary to save the media from divisive tendencies, to agree and observe certain ethical norms in informing the population," experts said.

In conclusion, participants expressed the hope that the authorities will not celebrate a "victory", but will make real steps to reform the political system and preserve unity in society, and opposition leaders in their turn will continue to promote the creation of an effective and democratic state.

KYRGYZSTAN: DEMOCRATIC SUCCESS OR THREAT TO STABILITY?

Valentin Bogatyrev, an expert of the IPP, Coordinator of the Analytical Consortium

"Perspectiva" and Vice-President of the Central Asian Intellectual Foundation "Vostok".

From a report presented at the conference "Central Asia in 2007: Dynamics of Change and Development", organized by the Institute for Public Policy on 2 March 2007.

The answer to the question posed as a topic for numerous discussions will be straight if you ask people from neighboring countries or someone from Europe. But at the same time the answers will be the total opposite of each other.

If for the western community the Kyrgyz Republic, with certain qualifications, is undoubtedly a state, which in democratic development moved ahead of its neighbors, then experts, politicians, and even ordinary people in Kazakhstan and Uzbekistan, Russia and Turkmenistan will first of all respond that the Kyrgyz Republic is the main source of a threat to stability in Central Asia.

Which answer is correct? Everything depends on what paradigm of development one adheres to.

There are two main viewpoints regarding what is happening in Central Asia at present.

One of them is that these states have completed their short way towards democracy and a market economy. The situation of quasi-democracy and quasi-market that has formed in these states is the final stage that Central Asia has come to, and this is the proper way prepared for the countries of the region.

From this position the events of the last seven years that have been taking place in the Kyrgyz Republic could be assessed as post-reformation or even counter-reformation. The reason for which, in my view, was in the modernization 'overheat' experienced by the country during the first three to five years of its independence. The dynamically transformational regime, incongruent in its temporality with the regional political and socio-cultural environment, has generated

what we see in Kyrgyzstan: a negative change in cultural normatives, political destruction, and an ideological vacuum. Coupled with a quasi-democracy this is undoubtedly an explosive mix, which could for a long time question the idea of Kyrgyz statehood and also create a number of problems for our neighbors.

I should note that it would be absolutely incorrect to ascribe these phenomena to the new administration. Rather, to the contrary: it is a product of them.

Another position is that the states of the region are moving along the way to a final point of a democratic society and free economy. From this position, the past fifteen years should be viewed only as the first stage. Peculiar to this stage was an attempt to formally change social organization and economic relations. From this point of view, the political systems of Central Asian states are in the process of transformation. However, this process has wider time frames than was expected, and has its own peculiar features, which distinguish it from classical notions of democracy.

In this context what is happening in Kyrgyzstan is undoubtedly a hope for democratic development, since no one disputes the fact that our country, more than all other Central Asian post-Soviet states, has advanced on the way to democracy.

But there is a third viewpoint according to which Kyrgyzstan is a disintegrating state, the state which failed to retain its statehood. Adherents of this view interpret the events of the last two years in the Kyrgyz Republic as a disintegration, and foresee various scenarios for the future: becoming a protectorate, becoming a part of another state, and partition of the state. It is obvious that

with such assessments, Kyrgyzstan is undoubtedly the most dangerous source of destabilization not only for its neighbors, but could also generate a hot-spot of global impact (sometimes it is called Central Asian Balkans).

What is happening in reality? How could these two realities be combined: Kyrgyzstan - mega-regional vanguard of democratic development and Kyrgyzstan, and a source of social instability?

There is one simple combination: I formulate it in the following way: development is instability. Any stability is a sign of stagnation or a latent accumulation of possible social explosions. In the view of such a paradigm of development, Kyrgyzstan is the most stable state in Central Asia since the processes of development are taking place here, and the 'lid is off the cauldron'; everything boils and rages, but it will not explode. With this I could finish my reasoning.

However, of great interest is how exactly the processes will develop in the Kyrgyz Republic: what threats and risks of development there are, what remains in the end and what disappears or transforms. The main question is whether the object of all this reasoning, the Kyrgyz Republic, indeed remains.

First of all, I will say that I am a proponent of the view that our country has the potential for development and what has been happening for the past seven years is a temporary phenomenon.

At present we have several opportunities. As they say, there are always at least two ways out of any no-go situation.

The first one is in restoring the processes of development. In this sense the events of March 24 and the period after it give optimism.

This is due to two reasons, at any rate.

The first one is the emergence of real politics, a real political space in the country. I think that for the first time we are dealing with an independent parliament. I suppose that for the first time we are close to creating non-client political parties. I suppose that for the first time independent analytical corps have been formed in the country. I suppose that non-governmental organizations are also close to real progress in the arena of public policy. These four phenomena are new for the country and create the basis for a claim to the emergence of real politics in our country.

The second circumstance, which testifies to the possibility of restoration of the processes of development, is a keen social demand for a national idea, national goals and a national strategy of development. It is important that for the first time since independence it

comes not from the government but from the public.

All of this means that things are not as bad as they seem. In fact, on the contrary: things are better than ever.

In my view, there is only one serious threat to this scenario: launching the process of a permanent destruction of the institutions of government. The format that led to a change of power in Kyrgyzstan in March 2005 has formed a "revolutionary" opposition, i.e. an opposition whose activities are directed at changing power in itself. A cycle of periodic collapses of statehood, a cycle of renewal of politics through the total collapse of its own architecture (state, social, moral) is being formed. This is a very serious threat to countries with unconsolidated statehood.

In order to stop this trend it is necessary in these states to have a new opposition, which is oriented not at changing power, but at demonstrating its ability to become more successful in solving issues being dealt with by the authorities. For that the opposition has to stop trying to build itself as a force, as external to the political system, and shift emphasis from conquering power to the development of the country. So far this is not happening. For instance, we see that the statement of the newly created "United Front" demonstrates that its leaders act according to an old, unproductive and very dangerous logic. This is regrettable.

Thus the first way out of the situation- let us call it the active scenario- is in a full launch of the political resources and the intellectual potential of the country. Whether this is possible is a matter of political will, not of the President but of the public.

Doubts about its existence today prompt us to propose the second way out of the situation. It is about the strategy of conservation of the existing situation until such time as a critical mass of the new generation of intellectuals and politicians come to the political scene.

However, this does not mean that nothing happens in the coming years. On the contrary, these years are extremely important. The next two to three years, including the year 2007 will be extremely important from the point of view of forming the foundation and resources for a new breakthrough in development.

I am not inclined to overestimate another danger, at least in terms of Kyrgyzstan; the repetition of authoritarianism. Yes, when we look at what is happening today, there is a clear sense of the growth of autocratic tendencies and deviation of the new administration from democratic principles. But I suppose that we deal with a totally different phenomenon. The period of changing ruling elites (and we are experiencing this period) is characterized by measures of the new administration



to retain stability, including political measures, which bear little resemblance to democratic forms. The need to fight the old elites, changing personnel, management paradigms and styles - as a rule, all of this is impossible to implement in democratic procedures.

However, the very existence in our history of March 24, 2005, showing the potential of public forces, independent of the authorities. But at least the freedom of mass media, in my view, has taken away forever the possibility of returning to totalitarianism.

The general trend of development of the Kyrgyz Republic, the orientation of existing processes still remains in the sphere of democratic choice. Many new social phenomena indicate that this

direction of development will be preserved.

Now the most unfavorable: In any scenario there is no reason to talk about stability. There will no longer be stability, in the sense as understood by our neighbors, in Kyrgyzstan.

Thus, Kyrgyzstan is undoubtedly a threat to stability from the point of view of our neighbors and Russia. Precisely because it is, and I am sure will remain, an example of democratic development.

In any case Kyrgyzstan could be viewed as some sort of mirror for its neighbors, with the help of which they could look into their future and attempt to avoid those mistakes that we may have made.

“AUTHORITIES-OPPOSITION” TANDEM IN 2007

Bakyt Beshimov, Vice-President of the American University - Central Asia

Published on IPP web site on 5 March 2007

In 2006 Kyrgyzstan failed to find way out of stagnation and develop a consolidated development strategy, which would satisfy all active parts of society: the authorities and opposition, political parties and civil society.

Instead of a loudly announced 8% economic growth, a 2.7% growth was barely achieved, and the GDP is continuing to decrease. Despite the fact that the new authorities position themselves as “industrialists”, the economic situation is developing in the opposite direction: there is a considerable reduction of the volume of output in industry, the price index of producers of industrial output increased by more than 15%, the deficit of trade balance increased by 2.2 times, the growth of medium and big enterprises almost stopped, whereas the growth of small enterprises and individual entrepreneurs is insignificant.

The growth of consumer prices, preservation of general wages arrears, and the grave crime rate disturbs the population. Emigration keeps growing: 25,000 Kyrgyzstanis left the country in 2005 and 26,500 in 2006. The number of HIV-infected is growing at a catastrophic pace - compared to 2005, in 2006 it increased almost by 50%. Over 60% of all crimes are serious crimes and felonies, whereas robberies, economic crimes and drug trafficking are on the rise.

It should be acknowledged that such a situation has been developing for years and the main reason for this is the vicious system of a corrupt government, which has turned into an instrument for plundering the country's wealth. Not only has the state, an excessive bureaucratic machine, become an insatiable monster, devouring the country - but it has also turned into an obstacle to development.

The share of state expenses in the country's GDP remains high at the level of 27-28%. In 2006 34.3% of the national budget was allocated for maintenance of the state machine. Thus, the Kyrgyz bureaucracy is not only a heavy burden on the national budget but also the main drain on the people's wealth and their incomes.

Influential bureaucrats who control the main financial expenditures of the country, not the commercial and financial bourgeoisie, are referred to as “the new Kyrgyz.” The underlying problem is in the absence of a separation between business and power. Business has administrative resources, whereas power is money motivated. Thus, the nomenclature devours Kyrgyzstan.

The rule of law is non-existent in the country, inviolability of private property is virtually absent, and many sectors still receive support from the state.

With such conditions the people naturally expected the new administration to eliminate the vicious system and begin the policy of creating a system of government open to the public, free from corruption, effective, and generating the growth of the population's incomes. Moreover, the overwhelming majority of the population sincerely believed the promises of the leaders of the new administration and at the beginning provided them with strong support. However, the final events of 2006, as verified by sociological surveys, did not justify the expectations of most of those people. The administration and opposition failed to find ways for constructive cooperation and confrontation defined their relations. In response to the demands of the people for changing the system of government, the political leadership responded with a miserable farce of power redistribution by adopting two constitutions in two months.

Negative tendencies in the political system continued in 2007. The parliament helped ruin the tandem, and Kulov founded and headed United Front “For Decent Future of Kyrgyzstan”, a new social and political movement, which openly stated the need for early presidential elections. Thus, for the first time after July 10, 2005 presidential elections, Bakiev’s legitimacy as President is being openly questioned. Moreover, it is being questioned by one of the main participants of the presidential campaign. To this very day Bakiev’s strength was that he was popularly elected, and Kulov’s attempt to indirectly recall his share of votes makes Bakiev’s authority unsustainable, creating a new political situation.

The start of a sharp polarization of political interests and a deepening feud within political powers are the defining features of the new political situation. De jure Bakiev is a popularly elected president, and even his principled opponents to this very day acknowledge his right for a constitutional term of office. Beknazarov and Co. questioned the President’s ability to meet the best expectations of the people, but even they have never openly crossed the line.

After the statement of the United Front, de facto supporters of Kulov and part of the opposition do not recognize Bakiev’s authority. Some political forces are already calling for a referendum to confirm the President’s legitimacy. Structurally a similar situation emerged after the infamous Aksy events when de jure Aksy was subject to Akaev’s authority, but his authority right up to the events of March 2005 was not recognized by residents of Aksy. Later non-recognition of the central authority spread to a number of regions. At present this process of division of the country along political estates may follow a dangerous new course. The administration itself created such force, and in order to tame or pacify it, authorities will have to resort to significant forces and resources.

At the beginning of 2007 a new Cabinet emerged from the ruins of the tandem. However, the people are not in a hurry to call it reformist or innovative. The Cabinet, toeing absolutely the President’s line, has made two notable steps - they turned down the Heavily Indebted Poor Countries (HIPC) Initiative and moved to a two-level budget. Both steps depending on the quality of policy may either strengthen the administration or create new unsolvable problems for it.

Thus, 2007 promises to be a landmark year. There are so many problems and contradictions and not enough ways to solve them properly. There are so many processes and tendencies that have been unfolding for years and so little preparation to transform them into positive channels. It should be acknowledged that the mass of political creative work done by the people, having gone through the process of the 2005 revolution, did not continue.

The victorious part of the political elite divided up the

power, stopped the revolution but so far has been unable to direct the unrealized energy of the people into the proper course. The tragedy of this part of elite is that it does not understand the similarity of the notion of “revolution” to the notion of “justice.”

The defeated politicians, speaking of fundamental transformation of the political situation, does not rule out the possibility of taking advantage of the discontent of a significant part of the population and seizing power. The tension that emerged between power groups should be reduced, but the question is how. How can the increasing inter-regional antagonism be overcome?

In the future events will undoubtedly unfold along the course of objective historical and political processes, taking into account the realities. Two dangerous precedents were set in 2005: seizure of power by using force and official legalization of the dangerous “north-south” division through the creation of the tandem. Interference of criminals, irresponsibility and corruptibility of the top leadership brought about the situation of March 2005 when power was seized through violence.

The events of November 2006 demonstrated that the line between political pressure on the authorities and the temptation to seize it by using force is very thin. Given mass protests it was very difficult to withstand such a temptation. Moreover, the politically active part of the population of Kyrgyzstan saw first hand that the successful are never blamed.

In the struggle for power the Kyrgyz Communist language during Soviet times artificially strengthened regional division and local interests. A total domination of the Communist bureaucracy concealed its ideology about local interests and deeply penetrated social relations.

During independence the Kyrgyz government started to rely mainly on clan relations and that way it only strengthened inter-regional antagonisms. Such new factors as competition for scarce jobs, material resources, spare land in the north of the country and position in the state hierarchy also contributed to the growth of inter-regional tension.

Corrupt government and a poor economy aggravated the negative factor of “us vs. them”. A forced union - a tandem, bound by a secret division of all important government positions, from the very beginning, contained in itself more destructive potential than constructive potential. Therefore the tandem could have played a positive role only if it existed in a constructive form till the next elections and in a worthy manner gave way to a new generation of the country’s leaders.

The main mission of the tandem was overcoming the dangerous tendency of regional divisions and paving the way for balanced development of



Kyrgyz politics for the following period. However, the mission turned out to be unrealizable.

What should be expected in the forthcoming months? To begin with careful attention should be paid to the essence of the authorities and the opposition - the main players on the political scene.

For the authorities the clock is ticking, whereas the number of problems is drastically increasing. The politically active population is not going to be patient. The President recently made the second attempt after 2005 to increase the number of loyal supporters in power. According to experts, in the central government there are more people who imitate loyalty and have a wait-and-see attitude than are really faithful. Even so they are trying to expand and strengthen the social basis for Bakiev's administration as well as make positive growth in the economy tangible for the population.

So far the authorities are relying on the staunch southern electorate and those who have certain benefits from cooperation with the authorities. The administration could also receive the support of those strata of the population that are afraid of the radical actions of the opposition and think that a lean compromise is better than a fat suit.

The pressure on the part of the mass media on people's opinions, especially among rural populations, is continuing with the goal of expanding the support base. The positions of the authorities are very weak in the ideological sphere. Following the example of his predecessor, the President is limiting himself to usual protocol, not paying enough attention to the expectations of the population, and primarily to the expectations of an ideological leadership. More and more important questions are accumulating within the society regarding the fate of the country, the preservation and development of the Kyrgyz nation, its place and role in contemporary human civilization. Given the lack of proper reflection on the part of the population over these problems, there is an increasing suspicion about the unhealthy interests of the administration and doubts about its moral right to rule the country.

The main issue is about the willingness and ability of the President to break the existing corrupt system and become a real leader of progressive transformations. If there are not to be tangible results from the fight against corruption then even the settled opinions of part of the southern electorate could change sharply. Such changes have already occurred in many people's opinion in the South. It is impossible to continue the course of a socially oriented state not increasing the incomes of the population while being at the center of a corrupt system.

On the other hand, democracy is the main resource of Kyrgyzstan in the foreign policy sphere. Whatever our neighbors say about us, Kyrgyzstan is the most free and

democratic society in Central Asia with the strongest and most stable civil society. Kyrgyzstan is strongly tied to international and regional economic relations, and greatly dependent on foreign aid. Assistance to Kyrgyzstan in making transformations is of great importance to donor-states and international financial institutions, and two ideas are of critical importance in this regard - fighting corruption, and development of democracy.

The opposition in its present state could be divided nominally into three camps.

1. Radical opposition. It includes the United Front and radical part of the Movement "For Reforms!" They concluded that "the acting head of the state is unable to act as a guarantor of the constitutional reform, has discredited himself by the previous actions on disruption of the constitutional reform as well as practically lost his legitimacy as a result of repudiation of commitments signed by him, including commitments within the framework of the tandem," and raised the issue of early presidential elections. The radical opposition has one ideology - finish with family rule in the country. Many people are ready to support the essence of the political claims of the United Front towards the authorities, but the proposed solution of crisis puts them on their guard. The disenchanted part of the electorate will undoubtedly support the actions of the United Front and everything will depend on the tactics of political struggle. If the leaders of the opposition manage to attract the main body of civil society, make persuasive steps regarding the southern electorate and, foremost, offer a clear and attractive program for the country for the coming years, then they may become a dominant force in Kyrgyzstan within a short time.

Kulov plays an important role in this. People keep accusing him of inconsistency and indecision, and even in betraying his genuine supporters when he was Prime Minister. The issue is about whether he will position himself as an ambitious Kyrgyz 'Napoleon' or a political 'system designer' who will fight corruption and clear the way for the new generation.

The second obstacle in the way of the United Front is regionalism. No matter how aggravated regional sentiments, no matter how objective are arguments for justification of division, still the majority of the Kyrgyz people support national unity. Therefore any attempts to play on regionalism will in the end discredit any politician. Based on a unique political experience accumulated for the past 16 years, the capacious Kyrgyz society is able to separate the husk of words from the kernel of truth. Significantly powerful politicians who profess ideologies of regionalism and local interests could be found on the extreme right of the authorities and opposition. It is they who played on regional passions of the conservative part of the electorate during the events of November-December in 2006. Therefore collision of these forces is

inevitable. Dissemination of their ideology of regionalism and revanchism among the masses is dangerous.

2. Moderate opposition. These include the socialists, nationalists, liberals, and even communists. That is, those who add stability of the political system and do not allow breaking down the foundations of the state. Except communists who wish return to the Soviet order, others failed to clearly propose their models for the development of Kyrgyzstan. But socialists keep maintaining their principles and calling for a socially oriented economy, nationalists for a distinct development plan, and liberals for more freedom and limitation of state interference into public affairs. A large number of non-governmental organizations are also part of this circle. Notwithstanding their differences, they are united by their aspiration for positive changes, since according to them, the new administration failed to become a force for progress and hinders the country's development. However, the moderate opposition wants changes through constitutional democratic means - on the basis of elections. The radical part of the opposition does not appeal to them by its excessive ambitiousness, inconsistency, and lack of a clear program of action. The moderate opposition may turn into a powerful political force if they manage to create a solid coalition aimed at a concentrated informing of the electorate, and by putting pressure on the authorities to make reforms.

If the authorities fail to appreciate their role in society, and establish constructive relations with it, then many moderate opposition figures will go for a favorable alliance with the radical opposition and question the need for such executive power. As demonstrated by history, one must deal with such things skillfully and not harbor grudges.

3. Favorites-situationists. This is a very common phenomenon in post-Soviet states where positions of the opposition are not regulated legally, politically, nor with relation to political culture. Given the hostile attitude towards dissidence, many cannot openly state their views and have to take such a position. Being in power they undermine it from within.

The people of Kyrgyzstan witnessed how officials and politicians discussed the HIPC Initiative and what their choice was. This is a particular case since it was about a principled and important issue therefore a personal choice has to be principled as well. As was expected the overwhelming majority of officials waited till the master of the "White House" made his choice. The country was again persuaded that the Kyrgyz bureaucratic elite continues to serve individuals and their own selfish ends rather than the people. There were noteworthy exceptions and this gives hope that the authorities may have the people's interests at heart. The whips within the government agencies depend on the position these opposition figures take.

ISSUES OF NATIONAL STATEHOOD IN CENTRAL ASIA

Muratbek Imanaliev, President of the Institute for Public Policy

Whether the states of Central Asia have succeeded in becoming fully-fledged or not is a debatable question, with ambiguous answers. Whether they will succeed is also a valid question.

The search for historical and philosophical roots and bases for the formation of modern platforms of state organization in Central Asia is not particularly successful from the point of view that there is a need to look towards some other history, to appropriate other's ideas of state organization - this is always as unstable as a sandcastle. Or the wandering reference point comes to rest upon myths and legends, which is also generally unreliable, since unconfirmed by real historical facts. And since the textual element of historical background is "far from being perfect", then attempts at inventing evidences of "who is more ancient and stronger" demonstrate serious deliberate distortions, which emerge in the process of the research activities of modern Central Asian historiographers.

It is quite obvious that the work on the restoration of the history of the region's people should continue, but it would be preferable to carry it out without political

straining and fantasizing. There are no doubts that the ancestry of the present people of Central Asia, in various kaleidoscopic ethno-formats, participated in the creation of different states, including great empires. First of all, this was a concerted effort and secondly, the historical memory of the modern people did not preserve the principles, parameters, and systems of state arrangement in the distant to more recent past. For instance, the history of the Kokand Khanate (from reasonably recent history) - is a common history of Uzbeks, Tajiks, Kazakhs, Kyrgyz, Kypchaks and other people of the region. All of these ethnicities, in one way or another, participated in the formation, development, and downfall of that state. However, the main meanings of the "Kokand state organization" were not only lost (a system of historical and communicative, social and cultural ties between the generations is destroyed), but also not recognized by the descendants of those who lived in that khanate ((the exception in this sense are only apologists of FANO (those who want to unite Fergana, Andijan, Namangan, and Osh into one state), but in the mosaic ideology of this so-called movement, religious motives nevertheless are stronger than statism)).



Bolsheviks founded the modern state organization in Central Asia; precisely it is the result of the implementation of Lenin's national policy. It was the very communists of Russia who carried out a "national and territorial" delimitation in Central Asia that local people had never dreamt of. They have created various kinds and levels of autonomy, republics, drawn borders between republics (often arbitrarily), written constitutions, established authorities, legal and educational systems, etc. All of this was part of one big country called the Union of Soviet Socialist Republics (USSR), but the formal and legal basis of sovereignty of each of the union republics has created certain futurological administrative and political images in the structure of the political conscience of the residents of Central Asian republics. Communists have not only created republics with their governments, borders, flags, emblems, and other trappings, but in the end gave real independence to these republics. Hardly anyone will deny that Mikhail Gorbachev, Boris Yeltsin, Leonid Kravchuk and other political figures of the USSR of the second half of 1980s were communists. What sort of communists they were is a different issue. It was they (the list could be very long), who while fighting for power, destroyed the second world power and subsequently even did not manage to explain why they committed this act of state suicide. Later semi-literate pursuits seeking a retrospective understanding of the possibility of a return to the past were not necessary to anyone anymore.

In relation to the aforementioned, we should note that the Central Asian republics were not particularly thirsty for independence. Let us recall at least the fact that the average figure of the referendum on preserving the USSR in March 1989 was 73% in favor, whereas in Central Asia it was 95%.

Therefore, based on other social, cultural, political, economic and other parameters, which formed during 150 years of being part of Russia and the USSR, it could be concluded that the following postulate was the sustainable paradigm of "independence" of Central Asians: "Sovereignty within the bounds of the Russian statehood." Therefore, as a result of disintegration of the USSR it turned out that Central Asians were sort of "expelled" from the Union. So after the downfall of a huge country emerged the so-called syndrome of "suddenly (without a struggle) acquired ("out of a clear blue sky") independence."

Frankly speaking, during the initial years of independence, leaders of the newly emerged states of the region did not know what to do with that "independence", where to start. From my point of view, the creation of the Commonwealth of Independent States (CIS) has saved Central Asians from many risks and problems, since, as I have already mentioned the CIS is not an international organization, rather a regulated process of disintegration of the empire (as is well known, empires do not perish

suddenly - this is a complex, protracted and painful process). The CIS taught the states of Central Asia a lot: building certain elements of the international and legal relations between each other (and not just through Moscow), forming relations with Russia (this was more than topical for each of the former Soviet republics, including the Baltic states), establishing relations with "strangers", including former enemies and friends, etc. At present many politicians, diplomats, and experts talk about the need for reanimation of the CIS (it is totally unclear what they mean by the reanimation of the CIS), giving new impulses to the new development of the Commonwealth, etc. As I view it, the CIS, as it exists, has fulfilled everything it could have. Everyone has departed peacefully and it is hardly possible to come together.

The Commonwealth should have been preserved as a confederal intergovernmental community, modeled on the British Commonwealth, with a view of carrying out consultations on general issues of world order, security, continental economy and cooperation in the sphere of cultural and humanitarian relations. All the more, if even in Russia the ideas of "returning lost territories" are still enduring, then it is practically impossible - too many people and too many things have changed too much. There is no talk at all about the desire of the elite groups in the Central Asian states to restore the past, with the exception of some isolated, desperate exclamations of politicians and public figures.

During the initial years of independence one could barely observe conceptual approaches to the issue of the formation and development of national statehood in the region. Outlines of the movement forward depended on individual qualities, experience, will and the worldview of one person who turned out to head a state. For instance, Saparmurad Niyazov came to power in Turkmenistan and the country slowly moved backwards to the Middle Ages; Askar Akaev was elected president in Kyrgyzstan and there emerged "an island of democracy." However, as it seems to me, the inertia of Sovietness as a mode of organizing a state still remains preserved in the main, key elements, given the entire multi-vector development. In particular, the law as a regulator of all relations in all states of Central Asia remains a Soviet model with insignificant innovative changes.

The only difference is that in Turkmenistan - there is an epoch of Stalinism, in Kyrgyzstan - Brezhnevism. The state management has virtually not changed: the same staff of the Central Committee with functional and sectoral departments (Administration of the President), the same Cabinet staff, helpless ministers, the judiciary as a branch of the executive, first secretaries of provincial and regional committees (provincial and regional governors) who are accountable to, and depend on, the President (Secretary General or First Secretary). A set of functions, the character of activities, the style of leadership, a vertical

line of mutual responsibility remains the same - Soviet. Elections are held according to the Stalinist scheme - "elections are won by those who count, and not by those who get more votes." The structural development of the economy cannot even be observed in Kazakhstan, although there were more than enough talks and projects. Public relations and civil society, with the exception of Kyrgyzstan and Kazakhstan, remain virtually unchanged.

Worse than that, given all the positive advances in the development of civil society in the latter two states, there is a process of dehumanization of public relations, accompanied by a criminalization of everything and everyone. Rigid authoritarian systems in conforming to the latter observation are not an exception.

Another seemingly positive advance towards the development of privatization and the stimulation of private entrepreneurship exists as a process of transfer of property from hand to hand, along with the changes in the political situation coupled with outrageous corruption. And no businessman, even among oligarchs close to government agencies, could not boast that his officially registered property could be transferred to his children. Bureaucracy, even trained in the West, is busy with serving itself, including the so-called protection racket.

At present, bureaucracy in the states of Central Asia could be viewed as a reformed Soviet nomenclature class. A distinguishing feature of the modern bureaucracy in the Central Asian states is that it has merged with business and criminal groups. Everything that is happening in the states of the region, including the issues of state formation, should not be viewed as a movement towards development and the approach to international standards (for instance, European). To a greater extent this is a regeneration of the Soviet on the inertial basis, i.e. the so-called post-Communism in the post-Soviet area. Post-Communism forms its own set of values - a cross-breed of Sovietness, Islamism and, as D. Furman qualified it, imitational democracy. How will post-Communism influence the formation of the ideas of national statehood and particularly of state building? It will have an influence, but there is always a choice.

It is difficult to deny a banal statement - there is a need for a concept of the country's development, on the basis of which it is possible to build all necessary constructions for creation of a state.

But to formulate such a concept is not difficult if the

country has a consolidated elite, which is guided by a certain Idea. It should be acknowledged that Kyrgyzstan so far, regrettably, does not have such a thing.

For instance, in Uzbekistan they have developed a concept of "The Great State of Uzbekistan" (buiukdavletizm). There are no doubts that it is possible to find a great number of defects and to suspect Uzbek ideologists of an attempt to exhume old ideologies of statehood from Uzbek bourgeois nationalists of the beginning of the XX century. Nevertheless, the concept exists and was adopted, if not by the entire population, then at any case, by a large segment of the Uzbek public and its elite groups.

Kazakhstan, by building up its way according to the ideas of the "2030 Program", later having used the serendipitous oil and gas fortune, has adjusted the qualitative parameters of the concept by transforming it into an idea to join the 50 most competitive states. A bright idea, which provided the basis for the construction of the famous multi-vector diplomacy.

There is also the concept of the "permanent neutrality of Turkmenistan", which formed the basis of the country's energetic independence.

The concept of Tajikistan's development is sectorally outlined. An important element in this is the understanding of the fact that the Tajik state is viewed as "a jointing area" between the Turkic-speaking and Persian-speaking worlds. And the transformation of the situation in Afghanistan after 2001 has strengthened positions of Tajikistan in the Central Asian international arena and opened new possibilities and prospects.

It is absolutely clear that these concepts (or rather, conceptual approaches) are far from being perfect, and it will take a protracted journey along a thorny path in order to attain the Idea, which will be sustainable for the required period of development and form the basis of state building. However, we should acknowledge that our neighbors already have the apparent concepts of a country's development, which is widely and futilely discussed in Kyrgyzstan. Last year a special commission was set up in Bishkek, tasked with development of the national ideology, but in the end there was a "great cry and little wool." I could be mistaken, but it seems to me that the idea of the "creation of a nation" or more extensively put, the "creation of people" should form the basis of our national concept of development.



WHAT HAMPERS ECONOMIC GROWTH IN THE KYRGYZ REPUBLIC?

Rafkat Khasanov, Executive Director of "Investment Round Table" Public Union

A report presented at the conference "Central Asia in 2007: Dynamics of Change and Development", organized by the Institute for Public Policy on 2 March 2007.

In one of the reports devoted to the development of private sector in Kyrgyzstan[1], it was said that the Kyrgyz Republic encountered some serious obstacles to economic development. It was pointed out that one of the deepest economic crises in world history has occurred in Kyrgyzstan. The crisis resulted from persistent problems caused by unfavorable physical and economic peculiarities such as:

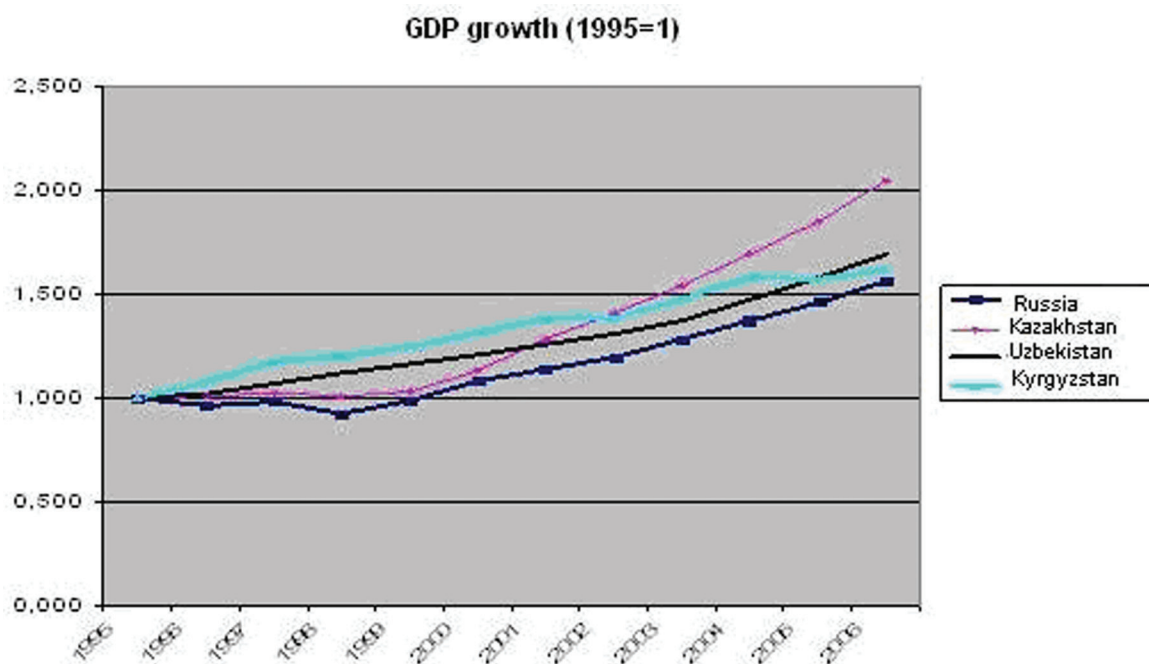
- Relatively small internal market
- Distant geographical location (the lack of access to sea ports)

- Relatively poor mineral resources

It should be noted that only Kyrgyzstan (and, probably, Tajikistan) has all these three peculiarities.

It does not explain why the Kyrgyz Republic, which had the same problems in mid-1990's, surpassed its neighbors in levels of economic growth, or why these levels decreased (in relation to its neighbors) only in 2002 (see Chart 1). The level of economic growth during the period between 1995 and 2001 averaged 5,5 %, while between 2002 and 2006 it made up only 3,1 %.

Chart 1. GDP growth (1995-2006)



Source: <http://www.cisstat.com/>, author's calculations.

The latest research studies, conducted by international financial institutions[2], show that the main obstacle to the economic growth is the trade barrier that the Kyrgyz Republic experiences

in its borders. The Chart 2, particularly, shows that trade barriers in neighboring countries are more considerable than in the Kyrgyz Republic.

	Insignificant		Quite significant		Very significant	
			KZ	KG	TJ	UZ
Complicated tariff scale and relatively high tariffs						
Frequent and unpredictable changes in tariff scale						
Escalation of tariffs						
Implicit tariffs						
Explicit taxes on export						
Banning and licensing an export and import of some products						
Agricultural subsidies in developed countries						

Chart 2. Trade barriers related to trade policies

Source: ADB, See reference 2

Taking into consideration that the country is significantly dependent upon external economic relations, these barriers could be noted as having negative effect upon the economic growth in the Kyrgyz Republic. According to the authors of the abovementioned reports, the removal of trade barriers will increase the real GDP within 10 years to 50-55 percent or 4, 2-4, 5 % per year as compared to the basic scenario. It should be noted that the increase of economic growth to 4 or more percent is seen as the significant increase, which can imply a stable economic growth. At the same time, this increase of potential economic growth creates a legitimate question: does it mean that the development of Kyrgyzstan is impossible without solving the problems with trade cooperation? Research studies, conducted by our institution[3], have shown that the removal of trade barriers will lead to the following results:

- The growth of the country's economy and budget incomes
- Strengthening of integration trends
- More balanced economic growth, which exerts a special influence upon the development of relatively poor economic sectors

- Stimulates an export of priority industries

However, these studies have also shown that the economic growth in this case will increase moderately or to 2, 3 % per year. More importantly, the effect from the removal of trade barriers will have a fading character. It means that the economic growth is determined not only by economic surrounding, but also by internal factors and processes of development that the economy of Kyrgyzstan is undergoing.

Table 1 shows that the economy of Kyrgyzstan, generally, has been adequately responding to the increasing demand from trading partners during the period between 2002 and 2006. Based on Kyrgyzstan's export shares, GDP Partners growth averaged 6, 1 %, while Kyrgyzstan's export growth averaged 10, 2 %, which is twice as much as its GDP growth. However, it did not affect adequately upon the growth rate in Kyrgyzstan, which made up only 3,1 %. This is due to the fact that significant portion of income goes to purchasing import products. Thus, the growth of import averaged 17 %, while the deficit of trade balance increased from 48,9 million dollars in 2002 to 1135,2 million[4] in 2006.

Table 1. The dynamics of external demand

	2002	2003	2004	2005	2006	Средний
Average growth of GDP Partners	4.5	6,3	7,0	6,5	6	6,1
Export	2.0	18,5	24,2	-6,4	15,9	10.2
Kyrgyzstan: GDP Growth Rate	0	6,7	7,0	-0,6	2,7	3,1

Source: NSC and author's calculations



Table 2 shows that there is a stable internal demand in Kyrgyzstan, which is significantly ensured at the expense of incoming transfers and other unaccounted receipts[5]. Within 5 years the number of transfers and unaccounted receipts has increased unprecedented from 6 % of GDP to 28 % of GDP.

Table 2. Transfers and Unaccounted receipts (in million dollars)

	2002	2003	2004	2005	2006
Transfers and Unaccounted receipts	96,9	221,2	299,4	635,3	799,0
Including current transfers	88,4	111,7	208,5	332,1	464,9
Growth Rate		228,3	135,4	212,2	125,8
The relation "transfers and unaccounted receipts" to GDP	6,0	11,5	13,5	26,0	28,4

Source: NSC and author's calculations

This flow of money to the economy of Kyrgyzstan is leading towards significant increase of individual consumption, the growth rate of which averaged 7, 5 %

(Table 3). In turn, such growth of individual consumption leads to the increase of service sector in the Kyrgyz Republic, and, particularly, of trade and public nutrition.

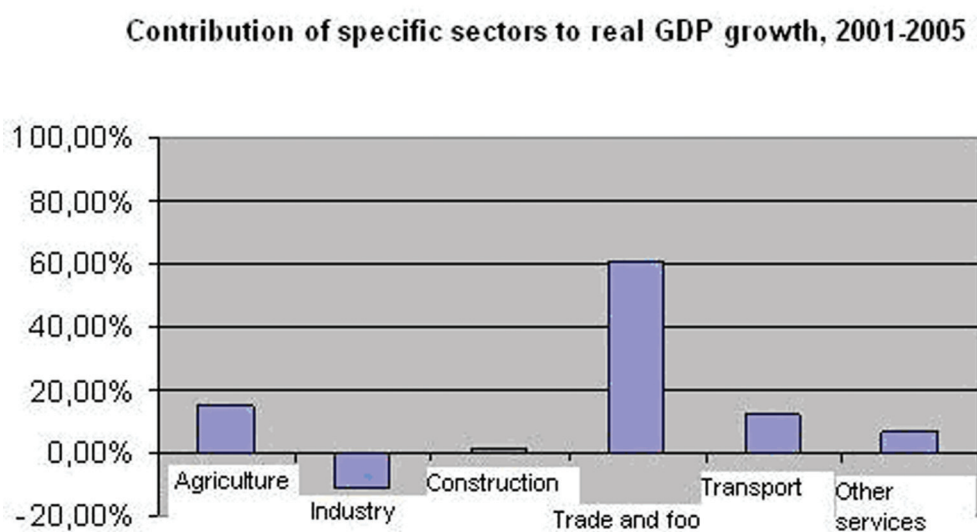
Table 3. Internal Demand

	2001-2005 average growth rate
GDP	3,1
Internal Demand	5,1
Expenses for ultimate consumption	6,6
Expenses of individual consumption	7,5
Gross savings	-2,5

Source: NSC and author's calculations

The following graph shows trade and public ensuring the GDP growth in the last years. nutrition as the main sectors, which has been

Chart 4. Contribution of specific sectors to real GDP growth, 2001-2006



Source: NSC and author's calculations

According to this data, the economy of Kyrgyzstan has significant internal and external demand. However, the economy does not respond quite adequately to this demand. One can be questioned in this context as to why having both unfavorable physical and economic peculiarities and more favorable signs from demand the economy of Kyrgyzstan is developing (in the last 5

years) according to the rate 1,5 times lower than that of the previous five-year period. The data provided above (Table 3) shows that the gross saving has been significantly decreasing over a long period of time. At the same time, as shown in the Table 5, the rate of savings is 1,5 times lower than that of our neighbors.

Table 5. The Rate of Savings

	2004	2005
Kazakhstan	25,1	24,8
Uzbekistan	22,1	23,1
Kyrgyzstan	14,8	14,5
Russia	20,8	20,9

Source: ADB

Many studies focus on the following features when describing the investment climate in the Kyrgyz Republic.

- Imperfect Legislation (wide competencies of the corresponding agencies, which put unmotivated demands)
- Superfluity (conducting any type of business requires obtaining a document or conciliatory visa, without which the business is considered as illegal);
- Increasing direct and indirect costs in conducting business;
- Provoking corruption;

- Entrepreneurs prefer to go into "shadow" business, than being confronted with numerous bureaucratic problems.
- The presence of a significant number of contradictory acts, reference rules and distortion of acts of lower level.

The following graphs serve as the proof for these statements. The Chart 6 shows that according to various indicators, the system of regulation in the Kyrgyz Republic is far from the best indicators of the world.

Chart 5. The Level of Regulation in Kyrgyzstan and the World



Source: www.doingbusiness.org



It is necessary to start activities on improving the investment climate in the Kyrgyz Republic and it should go on in the following directions[6]:

- Opening up the business (State Registration of Enterprises);
- Permissions for conducting special types of activities (licensing);
- Setting obligatory state requirements and conditions for allowing the products and services in the market (technical regulation);
- Permissions and coordination from the state agencies (permission to use the land, taking the lands out, permission to throw polluting materials etc.);

- Creation of stable and predictable legislation;
- Conducting audits
- Ensuring the property rights
- Improving the institutions of stock market
- Establishing institutions responsible for attracting and advancing the investments

In general, the following should be noted: the improvement of the regulatory system can significantly improve the situation in the country. EBRD's research, which studied the influence of economic factors on the growth of the economy, is the example for this. Even insignificant improvement of the investment climate can seriously increase the economic growth, as shown in the Table 6.

Table 6. The main components of improving the investment climate in the Kyrgyz Republic.

The Potential for Growth				
Indicator	The Value of Indicator as of 2005	Contribution to GDP in 2005	Initial Data	Contribution to GDP in %
Indicator of Reforms (average assessment of EBRD reforms)	2,92	0	3,25	1,3%
Fiscal deficit (Deficit of budget in relation to GDP)	2,2	+0,6	2,2	0,6%
The increase of external demand (average growth rate of GDP partners)	5,2	-0,1	7	0,6%
Balance of Oil Trade (in relation to GDP)	-0,08	-0,05		
The overall contribution of factors		+0,45		+ 2,5

Notes:

[1] ADB Report on development of private sector in KR: Problems and choices. ADB 2007.

[2] ADB report on Central Asia. How to increase benefits from trade by regional cooperation in the sphere of trade policy, transport and customs transit. ADB 2006. Report on human development in Central Asia. UNDP 2005.

[3] "Obstacles on the trade path of Kyrgyzstan in the region of Central (Middle) Asia", Bishkek 2006.

[4] Data of the payment balance of KR for 2002., NBKR (The National Bank of the Kyrgyz Republic). 2007. Data of express information of NSC for January 2007.

[5] In the balance of payment for 9 months of 2006 the line "mistakes and omissions" compose 211,2 million dollars. In essence, this number is equal to the unfinished financing of trade balance and, thus, can be considered as unaccounted receipts.

[6] Further reforms on these directions are considered in detail in the following publications (in development of which the author took direct participation).

Kyrgyzstan on the new stage of development, UNDP, Bishkek, 2005

Policy documents (developed by IRT with support of USAID, Bishkek, 2006 <http://www.investment.kg/>): 1) Conditions of regulatory and perimitory processes: courses of worsening of the business climate and recommendations on its improvement; 2) Reasons of the increase of the number of checks of business activity by governmental bodies, corruption in controlling bodies and recommendations on the improvement of administration and decreasing of corruption; 3) Problems of protection of private property and recommendations on providing guarantees and means of protection of immunity; 4) Problems of lack of transparency of the legislative process and ineffective execution of laws.

TAX REFORMS: MYTHS AND REALITY

Sergei Sabko, Director General, "Consultant" Company

Right now a key issue for the country is working out a unanimously suitable edition of the Constitution of Kyrgyzstan. Indeed, the document is important because it defines the basic parameters of the legal field for citizens of the country. Certainly Kyrgyzstanis are not indifferent to which system they live in: totalitarian, authoritarian or democratic.

The tax code is a document that plays almost as important a role as the Constitution, because it defines the basic parameters of the legal field for businesses. The importance of the tax code can be proved with historical examples in the formation of European democracies, which emerged in the struggle to limit the powers of the monarchy in establishing and collecting taxes. In this regard, it is quite relevant to talk about the form of tax regime in Kyrgyzstan.

A tax regime, based on the principle of a partnership of business and the state, could be called a democratic tax regime. And a tax regime in which tax payers have no rights, the point of view of the state is the only correct one and there is a special body to control and suppress tax payers, could be called a totalitarian tax regime.

The current edition of the tax code here (in the classification mentioned above) represents an authoritarian type of tax regime. The following norms prove such a notion:

Division of powers

There is no division of powers, which is one of the elements of a constitutional state. The executive branch of power actively interferes with the activities of the legislative branch of power.

So part 1 of article 5 of the current tax code establishes the direct restriction on the legislation activity of parliament:

Article 5 of the tax code of Kyrgyz Republic:

"Article 5. Order of introduction of amendments to the tax code

1. All projects of amendments to the tax code are subject to initial expert evaluation of the Ministry of Finance of Kyrgyz Republic prior to their consideration by the government and the parliament of Kyrgyz Republic.

Bills about introduction or abolition of taxes, exemption from taxes, are adopted only by approbation of government of Kyrgyz Republic."

It raises a lot of questions. Why does legislative work in taxation need the approbation of the

government? What is the reason for such a demand?

The reasons given by officials are interesting: they say that if parliament adopts amendments to taxation, in the long run it will impact upon the state's budget. If this is the case, the government cannot fulfill the budget. There are no other reasons. The whole issue rests on budget fulfillment.

Their anxieties have no grounds however, because regarding taxes there is a norm according to which all amendments come into effect only starting the next year. It secures the invariability of the budget task of the government, and logically, the reasons the government give that it would be complicated to fulfill the budget (should legislators interfere in tax legislation) are artificial, strained and groundless.

In general, as theory of state suggests, only the state that performs its powers under clear division of powers (legislative, executive and judicial) can be called constitutional. Any limitation of any branch of power means that the state is not constitutional. Draw your own conclusions.

Presumption of innocence

In the current edition of the tax code there is no concept of presumption of innocence or the honesty of the taxpayer. In general, those terms are not equal. But right now we are not interested in details. The issue is in the elementary mechanisms of the protection of a taxpayer's rights.

Since tax legislation contains mechanisms of coercion towards the taxpayer, such as required tax checkups and required reporting, there is a need to introduce the presumption of innocence into tax legislation. At the present moment tax officers directly abuse their positions in the process of tax checkups, and produce arbitrary extra charges that are not backed up by calculations or evidence. The taxpayer is initially assumed guilty and later, forced to prove innocence.

Besides, taxpayers who are charged with extra fees, often wrongfully, for amounts exceeding 500 thousand soms, have criminal cases instituted against them. At the same time, criminal cases are instituted prior to the announcement of decisions on tax disputes in economic panels, in accordance with a civil process. It is lawlessness under visible legality!

The presumption of innocence of the taxpayer should contain the norm according to which it is prohibited to institute a criminal case prior to the announcement of the decision of the economic panel in accordance with civil process.



Interpretation of dispute issues

The executive branch of power is entitled to the right to interpret the norms of the tax code, which contradicts the Constitution that defines also the order of interpretation (explanation.) According to the Law on normative legal acts, the body that approves the law is entitled to the right to interpret or explain norms.

Article 50 of the Law about normative legal acts:

«VII. Interpretation (explanation) of normative legal acts

Article 50. In case of vagueness of normative legal acts, wrong or contradictory practice of their application by the legislative body, which adopted relevant act, gives necessary explanation of its norms, drawn up in a special act.

Article 51 of the Law about normative legal acts of Kyrgyz Republic:

“According to article 58 of the Constitution of Kyrgyz Republic the parliament gives official interpretation of adopted normative acts.”

Article 58 of the Constitution of Kyrgyz Constitution:

“Article 58.

1. Under parliament’s jurisdiction are:

1) Adoption of the Constitution, introduction of amendments and additions to current Constitution, and also adoption of the new edition of the Constitution in accordance with order given in current Constitution;

2) adoption of laws;

3) official interpretation of the Constitution and adopted laws; ...”

It seems that it is written in clear and plain language that the parliament gives the official interpretation of adopted laws. At the same time the title of chapter VII equates the meaning of terms “interpretation” and “explanation”.

However, according to article 18-1 of the tax code, the right for explanation is given to the Ministry of Finance, i.e. to the executive branch of power, which contradicts the Law on normative legal acts.

“Article 18-1. Explanation of norms of the tax code of Kyrgyz Republic

Ministry of Finance is entitled the right to explain norms of the tax code of Kyrgyz Republic...”

Tax inspections

The Tax Service is entitled to the right to conduct tax inspections. Regular documentary tax

inspections are conducted once per year, cross-inspections - with no frequency limitation.

At the present moment tax checkups are not an instrument with which the state budget can be recharged. In reality, as a result of tax checkups the budget gets only 3 percent of all tax collections. At the same time, a large part of tax collection goes to the maintenance of staff inspectors of external checkups.

According to Kyrgyz businesses and foreign experts, including those of the World Bank, the mechanism of tax checkups is designed only for the staff of the Tax Service to charge money and exactions.

On average, a tax inspection costs about \$400 for a business, in this a case bribe to the tax inspector is implied.

As expert research showed, in civilized countries tax checkups are applied only if there are grounds to suspect a taxpayer of dishonest tax payment.

Regarding other taxpayers there is the small but very professional staff of the Tax Service, which performs work of a mainly analytical character. Such a system should certainly provide very strict sanctions, including criminal responsibility, towards those people who evade taxes.

Tax rates

Kyrgyzstan has very high tax rates. At the present moment, VAT rate, including VAT for import is fixed at 20 percent in Kyrgyzstan. In Kazakhstan this rate amounts to 14 percent. There is no sense and economic logic to this number. Any business making decisions on where to import goods will choose Kazakhstan because the losses for VAT on import will be significantly less.

That is why, even where there are markets in Kyrgyzstan, it is more profitable to export goods to Kazakhstan and then using illegal import (smuggling) bring them back to Kyrgyzstan.

If we do not count our officials silly, thanks to whom such wild ratios on taxes were fixed (compared with our neighbors) we have to acknowledge that there should be sense in constructing such a system.

Is there any sense in increasing smuggling? Indeed, there is sense for customs officials, who take the bribes. The more smuggling, the better it is for customs officials.

The same can also be said of taxes. The higher the tax rate, the more difficult they are to pay, and logically more businesses are forced to operate in the shadow economy.

According to official statistics, tax at present amounts to 20 percent towards the GDP of the country. However,

any business will say that it is a fiction and should one pay everything provided by tax legislation then the real tax burden on separate kinds of businesses would amount to up to 50 percent from taxpayer profit.

There is one simple conclusion: at the level of statistics it is visible that not every taxpayer pays taxes. If all taxpayers have been paying taxes, tax collection would amount to 50 percent from GDP, but not 20 percent as it is now.

The conclusion is that tax rates in Kyrgyzstan are artificially overstated. It is not done accidentally or without thinking. It is done to chase businesses out of the legal field. A business that is chased out of the legal field is forced to solve problems using corruption. Thus, the tax system in Kyrgyzstan is worked out and supported in such a way by officials that bribe takers get serious shadow financial revenue besides their budget salary.

It is worth adding that the issue of tax rates should be considered at the level both of tax rates and other elements applied to calculate the amount of tax due, including amounts of non-taxable income.

For example, in the U.S. the maximum rate for income tax amounts to 35 percent, and in Kyrgyzstan this rate is 10 percent. And this case is used by unprincipled officials as evidence of acceptable tax rates in Kyrgyzstan. However, if we take into account the amount of non-taxable income, then the picture dramatically changes. The non-taxable income amount is \$200 in Kyrgyzstan, whereas in the U.S. the amount is \$7000. Impressive? It means that the U.S. citizen who has an income of \$7000 does not pay income tax at all, and at the same time, a Kyrgyz citizen should pay income tax of about \$620 from this amount.

The complex features evident in a lack of clearly formulated and protected rights of tax payers, the lack of real division of powers, lawlessness manifested in tax checkups and high tax rates mean that there is an authoritarian tax system in Kyrgyzstan.

We are not a totalitarian tax system for any one reason. A body of pressure in the form of the Tax Service is relatively loyal to non-payers, which allows the taxpayers to "solve problems" in almost any situation, even in the case of persistent tax evasion.

Tax reform: myths and reality

At the beginning of 2004, relevant bodies started work on a new edition of the tax code. The authorities set up a state commission and expert group on developing the new edition. At the same time it was expected that the state commission would equip the expert group with a concept, or at least a vision, of the common outlines of the new tax code, which the expert group would realize in articles of the tax code.

But such cooperation did not happen from the very beginning. Co-chairmen of the state commission were saying good words on the new approaches to taxation, that Kyrgyzstan is a state with a service economy, about the necessity to take into account the realities of tax systems in neighboring states, and about the partnership of the government and society in the tax sphere, etc.

However, those words did not reflect on the efforts of the expert group. Composed of former and current officials of the Ministry of Finance and the State Tax Inspection, the expert group started its work. After some time, a discouraged public had the chance to see the outlines of the future document, which provided following:

- a) seizure of property without court decision (that contradicts the Constitution),
- b) general registration in the Tax Service of everyone, including foreign citizens, who have bank accounts,
- c) additional types of checkups, such as raids, chronometry, cameral checkups and monitoring,
- d) all disputed issues in tax legislation are solved by the Ministry of Finance,
- e) there is a "tax post" introduced which does not exist in the current edition, where a tax inspector resides at the taxpayers' place for an indefinite time, with all the consequences,
- f) voluntary payment of tax is destroyed. It means that all businesses in Kyrgyzstan's markets should provide reports to the Tax Service from now on,
- j) in the same text of the project, certain non-market taxes were introduced: "road tax" and "deductions for the prevention of emergency situations," the abolition of which was promised to businesses since the end of XX century.

It became clear that with the adoption of such a tax code, legal businesses will most likely disappear from Kyrgyzstan. And only those businesses will work whom the Tax Service will allow. It is not up for discussion: the Tax Service will get marvelous powers.

From this very moment, professionals who know tax legislation realized the greatness of the idea of the Ministry of Finance to create a totalitarian tax system in Kyrgyzstan. It became immediately clear that it is the last line. If one is defeated in this "battle", there will not be any opportunity for revenge.

So, businesses decided to work out their own alternative edition of the tax code. This version was worked out and even submitted to parliament by one MP.



Taxes proposed by business community:

1. Profits tax
2. VAT
3. Excise tax
4. Income tax
5. Social tax
6. Land tax
7. Property tax
8. Retail tax
9. Tax from natural resources users

The system proposed by the business community does not pretend to be original. There are almost the same taxes as in the governmental version of the tax code; excluding road tax and deductions for the prevention of emergency situations (those two taxes are not listed in the edition proposed by the business community.) At the same time there are substantial differences regarding VAT and Social tax. The VAT rate for the services sector amounts to 10 percent, for other sectors of activity it is 15 percent.

Regarding social tax, which was offered by the business community instead of a deduction for state social insurance, the sources of tax are the same as they were in deduction; specifically, the salary of employees and the expenses of employers. At the same time, tax rates are significantly changed, which amount to 15 percent according to the following formula $15\% = 8\% + 7\%$. 8 percent is deducted from the employee's salary, i.e. the rate remains the same, and employer pays 7 percent from salary fund, instead of 21 percent at the present moment.

VAT rates (10 and 15 percent) and Social tax (15

percent) are fixed at relatively high levels. The level was calculated from numerous meetings with business representatives. Such rates are the highest threshold under which businesses can still pay taxes. If the rates are higher, businesses would tend to go black, i.e. under the protection of corrupted officials of the Tax Service.

There is one more important element. Tax payment is always a painful process. And resorting to a singularly oppressive body in the form of the Tax Service and Financial Police has never had the desired results anywhere in the world. It is necessary to achieve consensus within society, a certain type of public agreement in which the state takes responsibility for setting a SOUND tax policy, and the society AGREES to pay taxes. When society refuses to pay taxes, no repression will help. Businesses will work either in the shadow or abroad.

On the other hand, the rationality of taxes is dictated by the necessary public expenses of the state, such as the expenses for defense, public security, law and order, medicine, education and others. And that is right. Logically, a public agreement (the tax code) between society and state on taxes should contain such a list of taxes and rates that are low enough for the possibility to develop and pay taxes, while at the same time being high enough to allow the state budget to be formed in sufficient volume.

Right now politicians do not care about the tax code. In fact, spring 2007 demonstrated an annual intensification of political health of Kyrgyzstan (which has become normal). Nevertheless, the long drawn-out tax reform should be concluded. We hope that the legislators will not treat the adoption of the new edition of the tax code as being of secondary importance.

CHALLENGES OF DEVELOPING EFFECTIVE STATE POLICY ON WATER RESOURCES MANAGEMENT

Round table summary

On 28 March 2007 the Institute for Public Policy hosted a round table "Challenges of developing effective state policy on water resources management", which brought together experts from state institutions, scientific centers and independent experts dealing with water and water power resources. The event was moderated by Muratbek Imanaliev, President of the Institute for Public Policy. The discussion was a follow-up of 15 December 2006 round table on "Water resources management in Kyrgyzstan: price and possible scenarios."

In his introduction speech President of the Institute for Public Policy Muratbek Imanaliev stated that absence of a well-shaped national interest in management of the country's water resources remains the main unresolved issue. It is only possible to build effective policy on utilization and management of water resources if there

is a clear outline of role water plays in our country.

The round table participants concluded that water should be recognized as a national wealth of Kyrgyzstan, which should play a key role in economic development and provision of security of the country. This principle must be a guide in developing and implementing a specific water policy, tailored both domestically and internationally.

Regarding the issue of joint use of water resources with Central Asian countries, round table participants noted that Kyrgyzstan should build its policy based on two principles: the principle of integration of Central Asian states and the principle of inter-industrial balance of interests. Water should serve to promote integration and peaceful mutually beneficial cooperation between countries of the region. It is in Kyrgyzstan's interests to

consider cooperation on water resources in a wider context, along with issues of energy, transport, trade and others.

Participants identified several priorities that must be considered during implementation of the state water policy. First of all, domestic consumption of water must increase and be met. Today less than 15% out of 45 billion cubic meters of water flowing on the territory of Kyrgyzstan is used within the country. To develop economy, state should increase water consumption in industry, utilities and other sphere at least four times.

Secondly, government should adequately assess its possibilities in regional cooperation on water policy. As experts stated, development of international agreements and contracts on water issues should be guided by a balanced approach directed on protection of national interests of the Kyrgyz Republic while respecting interests of downstream countries.

Certain conflict of interests on water use could be observed between Kyrgyzstan and downstream countries today. It is in the interests of all states to find mutually acceptable and beneficial method of joint water usage. As stated earlier, one of the options is to consider the issue of water in the package with other issues, i.e., inter-sectoral balance of interests.

Regarding specific measures on developing strategy on trans-border water resources management, Director of the Institute for Water Issues and Power of the National Academy of Science of the Kyrgyz Republic, Duishen Mamatkanov proposed three points. First of all, it is necessary to reconsider existing system of water division

between Central Asian states inherited from the Soviet Union. Around 30 billion of cubic meters of water are formed on the territory of Kyrgyzstan but only 4 billion are used by the country, which is insufficient for domestic consumption. More than that, Kyrgyzstan has area of more than 1 million hectares which could be potentially turned into arable land. Secondly, it is vital to determine and recognize water as a commodity and charge fee both from internal and external consumers to cover expenses on strengthening river banks, making prognosis and conducting other regular activities. Thirdly, it is necessary to agree with neighboring countries that they provide compensation for expenses incurred by Kyrgyzstan for maintaining irrigation infrastructure on Toktogul cascade.

A number of participants expressed their opinion that legal framework regulating water issues within the country as well as joint water usage with neighbors needs to be clarified. Today a large number of legal acts exist that duplicate each other, some are not implemented partially, some - completely, and they might need to be cancelled.

The round table participants also discussed a suggestion to establish an International Water Academy in Bishkek. The Academy would provide scientific, academic and analytical foundation covering all areas/sectors related to water usage. In particular, such an institution would train professional staff needed in water industry, provide relevant basis for research, serve as a platform for experts and politicians to discuss vital policy issues on water. As Muratbek Imanaliev noted, water is the main component of state development in Kyrgyzstan, and water policy should be considered as an essential part of a general state development policy.

GEOPOLITICAL ASPECTS OF THE PROBLEM OF REGIONAL INTEGRATION IN CENTRAL ASIA

Farkhod Tolipov, Kandidat politicheskikh nauk, Associate Professor of the Department of Political Science, National University of Uzbekistan

Paper delivered at the conference "Central Asia in 2007: Dynamics of Change and Development", organized by the Institute for Public Policy on 2 March 2007.

Regional integrationism along with such phenomena as dialogue between civilizations and globalism are the three main foundations upon which a new systemic construction of international relations is being built at present. In this context there is a **certain modality of collective actions on the international scene**. This is the conceptual and practical imperative, the challenge faced by the states of the international community. This challenge is of particular urgency for the so-called new independent states of Central Asia, which emerged from the post-Soviet area who recently marked the fifteenth anniversary of their independence.

The issue of national and regional identity is a very

important issue for the people of the Central Asian region. When apologists of the economic determinism of regional integration advance their arguments in order to prove the failure, or premature, integration of Central Asian states (in view of their economic differences) they certainly do not pay attention to one fundamental fact: that their rationalism of economic conditionality to integration is applicable to the case of full-fledged state formations, of pre-industrial and industrial epochs. **In our case, given the universal tendency towards a regionalization of international relations, there is an incompleteness to the process of political cartography in Central Asia. There is an insurmountable obstacle to its completion, which was historically formed by**



a transborder way of life for the inhabitants there, for whom national identity does not conform to the imposed international borders. But there is also an economic irrationality to delimitation.

Waves of integration and disintegration colliding with each other create such complex geo-socio-cultural and political issues of regional development, that it is difficult to see the distinction between national and regional.

However, at present after 15 years of independence declared in December 1991 by five Central Asian states (in response to the creation of the Commonwealth of Independent States by three Slavic states) the course for integration has become locked. The paradox of Central Asia lies in its national-regional dualism. It seems that in many respects it has caused the present ad-hoc situation, so to speak, in the process of regional integration. Indeed, this phenomenon of dualism has to a certain degree led to an inadequate understanding of national interests. Central Asian states and their leaders have become entangled in the development of regional strategy.

There are both objective and subjective elements in the current situation in the region. The formation of national statehood constitutes the objective factor. The creation of a new statehood with all it involves, including the accumulation of experience in conducting domestic and foreign policy, and integration into the world community, are unprecedented tasks. They have basically become an end in themselves and a sense of self-worth for all post-Soviet states.

The character and peculiarities of political leadership in these countries constitute the subjective factors. Lack of will and even loyalty to the idea of integration (what in English literature is referred to as "commitment") has inhibited this process. The same idea could translate to the popular idea of the existence of a mythical competition between the leaders of Kazakhstan and Uzbekistan for leadership in the region.

The increased threat of terrorism and the repeated excursions of terrorists from one Central Asian state to another, alongside other security threats, have sowed distrust and accusations among these states. Thus the mining in certain sections of Uzbekistan's border with Kyrgyzstan and Tajikistan, and the introduction of a visa policy with the neighboring states totally contradicts the aim of integration set out in 1991. Common security challenges in all five states of the region have caused five independent national responses instead of one unified response, which has not led to strengthening of either regional or national security at all.

Besides, a delay in the integration process was met by the inadequate intervention by geopolitical elements. Non-

self-sufficiency of the Central Asian states, geopolitically, was clear for the entire period of independence. The states naturally turned out to be unprepared for the dramatic geopolitical transformation that then hit the region.

"Access to resources [of the region - F.T.] and receiving a share of its potential wealth, - writes Brzezinski, - represent those goals, which stimulate national ambitions, determine corporate interest, enliven historical demands, revive imperial aspirations and kindle international rivalry... Geostrategic implications are clear for America: America is too far away to dominate in this part of Eurasia, but too powerful not to be involved... Russia is too weak to restore its imperial domination over the region or exclude such domination on the part of other powers, but too close and strong to be excluded." (Brzezinski, Zb. The Grand Chessboard. American Primacy and its Geostrategic Imperatives (BasicBooks - Harper Collins Publishers, Inc, 1997), p. 125, 148)

All of this put Central Asians into a very difficult situation. They had to take advantage of the uniqueness of their geopolitical situation, increase the attention paid to them internationally, and reinforce their image in international relations as a region: being ready to meet the challenges of the time by coordinating their foreign policy, and demonstrating regional strategy as a primary direction in their foreign orientations. This regionalization of relations, as it was mentioned in the beginning of the paper, is the imperative of the modern world.

However, a narrow, limited understanding of the world, global processes, the nature of world order after the end of the "cold war" and failure to be ready to develop adequate response to geopolitical challenges, determined the relevance of an exclusively old model of the "balance of power" with the new international relations in the post-Soviet area. Moreover, a Minor Game among the states of the region is unfolding against the background of the Great Game in the region. As a result, Central Asia has not so far gained its common geopolitical place. The recent merger of the Organization of the Central Asian Cooperation (OCAC) with the Eurasian Economic Cooperation (retaining the name of the association "EEC") became a striking confirmation.

Central Asia continues to remain as both a geographic and historical reality. Out of the three factors mentioned (which inhibit the process of regional integration in Central Asia) the first - related to the necessity of the creation of statehood - loses its topicality in view of the completion of this task over the 15-year period. Now it seems that it is possible to switch from state to regional construction. The second, subjective factor is transient by nature. Remaining is the third - the geopolitical factor. This is a very complex issue in view of the present proliferation of geopolitical actors in the region. At the same time, out of all these players, a symbolic geopolitical triangle

comprising the USA-Russia-China in Central Asia should be noted. Our analysis of the policies of the states of this triangle demonstrates that it is possible to envisage four possible future geopolitical manifestations in Central Asia.

The first is the status of a **buffer zone**. Most likely this is in the interests of Russia for two reasons: one reason is of an offensive character - considering the Central Asian region as a zone of its historical responsibility and geopolitical control in its long-term reach towards the Indian Ocean; another reason is of a protective character - considering the Central Asian region as a zone, which protects Russia/empire from direct contact with a geopolitical opponent (first it was Great Britain, later, the USA). Only the buffer status of Central Asia could serve such geopolitical interests of Russia.

The second possible status is that of a **sanitary cordon**. This would be more in the interests of the USA, which pursues the strategy of geopolitical pluralism, and proclaims its aspiration not to allow (or prevent) domination of any power in Central Asia.

The third possible role is as a **base for expansion**, which most of all would be in the interests of China. China

could objectively consider Central Asia as its geopolitical rear and be predisposed to using the region in its movement to the West. This movement may take one of the two forms - territorial expansion or the extension of the sphere of economic and political influence (although the first scenario is unlikely to happen).

All of the scenarios mentioned above cannot objectively be accepted by Central Asian states since all these three positions primarily imply their subordination in some form or other to the will and actions of external powers, and disregard the will and role of Central Asians.

Therefore, the only relevant choice of the states of the region (a fourth status) is to become a united center of power. At present it becomes more evident that **they cannot be totally independent and sovereign states unless they realize the principle of an integrated, independent and sovereign region**. Such a "project", if it is destined to happen, is primarily in the interests of all global and regional powers - the participants of Central Asian geopolitics. Therefore the approaches of these participants towards this project may serve as an exact test of their real intentions in this part of the world.